General Finance CORP
Form 10-Q
November 08, 2016
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U. S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from ______________ to ______________.

Commission file number 001-32845

(Exact Name of Registrant as Specified in its Charter)

Delaware	**32-0163571**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

39 East Union Street

Pasadena, CA 91103

(Address of Principal Executive Offices)

(626) 584-9722

(Registrant s Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

State the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 26,288,108 shares outstanding as of November 3, 2016.

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GENERAL FINANCE CORPORATION

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

GENERAL FINANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	June 30, 2016	September 30, 2016
Assets		
Cash and cash equivalents	$ 9,342	$ 9,403
Trade and other receivables, net of allowance for doubtful accounts of $8,876 and $9,066 at June 30, 2016 and September 30, 2016, respectively	38,067	40,503
Inventories	34,609	38,874
Prepaid expenses and other	9,366	9,555
Property, plant and equipment, net	26,951	26,125
Lease fleet, net	419,345	424,206
Goodwill	102,546	103,985
Other intangible assets, net	33,348	31,798
Total assets	$ 673,574	$ 684,449
Liabilities		
Trade payables and accrued liabilities	$ 43,476	$ 39,928
Income taxes payable	175	
Unearned revenue and advance payments	14,085	14,900
Senior and other debt, net	352,220	365,729
Deferred tax liabilities	39,006	39,319
Total liabilities	448,962	459,876
Commitments and contingencies (Note 9)		
Equity		
Cumulative preferred stock, $.0001 par value: 1,000,000 shares authorized; 400,100 shares issued and outstanding (in series) and liquidation value of $40,722 at June 30, 2016 and September 30, 2016	40,100	40,100

Common stock, $.0001 par value: 100,000,000 shares authorized; 26,218,772 and 26,221,772 shares issued and outstanding at June 30, 2016 and September 30, 2016, respectively		3		3
Additional paid-in capital		122,568		121,593
Accumulated other comprehensive loss		(14,129)		(12,682)
Accumulated deficit		(10,010)		(11,225)
Total General Finance Corporation stockholders equity		138,532		137,789
Equity of noncontrolling interests		86,080		86,784
Total equity		224,612		224,573
Total liabilities and equity	$	673,574	$	684,449

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Quarter Ended September 30, 2015	2016
Revenues		
Sales:		
Lease inventories and fleet	$ 20,321	$ 20,372
Manufactured units	2,137	1,094
	22,458	21,466
Leasing	41,328	41,332
	63,786	62,798
Costs and expenses		
Cost of Sales:		
Lease inventories and fleet (exclusive of the items shown separately below)	14,545	13,832
Manufactured units	2,824	1,412
Direct costs of leasing operations	16,575	17,860
Selling and general expenses	16,764	16,528
Depreciation and amortization	9,079	9,503
Operating income	3,999	3,663
Interest income	17	23
Interest expense	(5,015)	(4,831)
Foreign currency exchange gain (loss) and other	108	(95)
	(4,890)	(4,903)
Loss before provision for income taxes	(891)	(1,240)
Provision (benefit) for income taxes	(356)	(496)
Net loss	(535)	(744)

Preferred stock dividends		(922)		(922)
Noncontrolling interest		(563)		(471)
Net loss attributable to common stockholders	$	(2,020)	$	(2,137)
Net loss per common share:				
Basic	$	(0.08)	$	(0.08)
Diluted		(0.08)		(0.08)
Weighted average shares outstanding:				
Basic		26,008,878		26,218,805
Diluted		26,008,878		26,218,805

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/LOSS

(In thousands, except share and per share data)

(Unaudited)

	Quarter Ended September 30,	
	2015	**2016**
Net loss	$ (535)	$ (744)
Other comprehensive income (loss):		
Change in fair value change of interest rate swap, net of income tax effect of $24 and $12 in the quarter ended September 30, 2015 and 2016, respectively	30	129
Cumulative translation adjustment	(10,620)	2,839
Total comprehensive income (loss)	(11,125)	2,224
Allocated to noncontrolling interests	4,446	(1,992)
Comprehensive income (loss) allocable to General Finance Corporation stockholders	$ (6,679)	$ 232

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except share and share data)

(Unaudited)

	Cumulative Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total General Finance Corporation Stockholders Equity	Equity of Noncontrolling Interests	Total Equity
Balance at June 30, 2016	$ 40,100	$ 3	$ 122,568	$ (14,129)	$ (10,010)	$ 138,532	$ 86,080	$ 224,612
Share-based compensation			(56)			(56)	(349)	(405)
Preferred stock dividends			(922)			(922)		(922)
Dividends and distributions by subsidiaries							(939)	(939)
Issuance of 3,000 shares of common stock on exercises of stock options			3			3		3
Net income (loss)					(1,215)	(1,215)	471	(744)
Fair value change in derivative, net of related tax effect				66		66	63	129
Cumulative translation adjustment				1,381		1,381	1,458	2,839

Total comprehensive loss						232	1,992	2,224
Balance at September 30, 2016	$ 40,100	$ 3	$ 121,593	$ (12,682)	$ (11,225)	$ 137,789	$ 86,784	$ 224,573

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Quarter Ended September 30,	
	2015	**2016**
Net cash provided by (used in) operating activities (Note 10)	$ 14,102	$ (358)
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(745)	(2,107)
Proceeds from sales of property, plant and equipment	295	18
Purchases of property, plant and equipment	(1,145)	(759)
Proceeds from sales of lease fleet	7,005	4,791
Purchases of lease fleet	(14,617)	(11,488)
Other intangible assets	(104)	
Net cash used in investing activities	(9,311)	(9,545)
Cash flows from financing activities:		
Repayments of equipment financing activities	(131)	(126)
Proceeds from senior and other debt borrowings, net	2,657	11,265
Deferred financing costs	(54)	
Proceeds from issuances of common stock		3
Dividends and distributions by subsidiaries	(233)	0
Preferred stock dividends	(922)	(922)
Net cash provided by financing activities	1,317	10,220
Net increase (decrease) in cash	6,108	317
Cash and equivalents at beginning of period	3,716	9,342
The effect of foreign currency translation on cash	(1,107)	(256)
Cash and equivalents at end of period	$ 8,717	$ 9,403

Non-cash investing and financing activities:

On August 12, 2015 and August 10, 2016, the Board of Directors of Royal Wolf declared a dividend of AUS$0.05 and AUS$0.025 per RWH share payable on October 2, 2015 and October 4, 2016 to shareholders of record on September 17, 2015 and September 16, 2016, respectively. The condensed consolidated financial statements accrued the amount of the dividend pertaining to the noncontrolling interest, which totaled $1,716 (AUS$2,459) and $939 (AUS$1,230), as a charge directly to the equity of noncontrolling interests at September 30, 2015 and 2016, respectively (see Note 3).

The Company included non-cash holdback and other adjustment amounts totaling $752 and $222 as part of the consideration for business acquisitions during the quarter ended September 30, 2015 and 2016, respectively (see Note 4).

The accompanying notes are an integral part of these condensed consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Organization and Business Operations

General Finance Corporation (GFN) was incorporated in Delaware in October 2005. References to the Company in these Notes are to GFN and its consolidated subsidiaries. These subsidiaries include GFN U.S. Australasia Holdings, Inc., a Delaware corporation (GFN U.S.); GFN Insurance Corporation, an Arizona corporation (GFNI); GFN North America Leasing Corporation, a Delaware corporation (GFNNA Leasing); GFN North America Corp., a Delaware corporation (GFNNA); GFN Realty Company, LLC, a Delaware limited liability company (GFNRC); GFN Manufacturing Corporation, a Delaware corporation (GFNMC), and its 90%-owned subsidiary, Southern Frac, LLC, a Texas limited liability company (collectively Southern Frac); over 50%-owned Royal Wolf Holdings Limited, an Australian corporation publicly traded on the Australian Securities Exchange (RWH), and its Australian and New Zealand subsidiaries (collectively, Royal Wolf); Pac-Van, Inc., an Indiana corporation, and its Canadian subsidiary, PV Acquisition Corp., an Alberta corporation (collectively Pac-Van); and Lone Star Tank Rental Inc., a Delaware corporation (Lone Star).

The Company does business in three distinct, but related industries, mobile storage, modular space and liquid containment (which are collectively referred to as the portable services industry), in two geographic areas; the Asia-Pacific (or Pan-Pacific) area, consisting of Royal Wolf (which leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand) and North America, consisting of Pac-Van (which leases and sells storage, office and portable liquid storage tank containers, modular buildings and mobile offices) and Lone Star (which leases portable liquid storage tank containers and containment products, as well as provides certain fluid management services, to the oil and gas industry in the Permian and Eagle Ford basins of Texas), which are combined to form our North American leasing operations, and Southern Frac (which manufactures portable liquid storage tank containers).

Note 2. Summary of Significant Accounting Policies

<u>Basis of Presentation</u>

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with United States generally accepted accounting principles (U.S. GAAP) applicable to interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by U.S. GAAP for complete financial statements, although the Condensed Consolidated Balance Sheet at June 30, 2016 was derived from the audited Consolidated Balance Sheet at that date. In the opinion of management, all adjustments (which include all significant normal and recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The accompanying results of operations are not necessarily indicative of the operating results that may be expected for the entire fiscal year ending June 30, 2017. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes thereto of the Company, which are included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the Securities and Exchange Commission (SEC).

Unless otherwise indicated, references to FY 2016 and FY 2017 are to the quarter ended September 30, 2015 and 2016, respectively.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include assumptions used in assigning value to identifiable intangible assets at the acquisition date, the assessment for impairment of goodwill, the assessment for impairment of other intangible assets, the allowance for doubtful accounts, share-based compensation expense, residual value of the lease fleet and deferred tax assets and liabilities. Assumptions and factors used in the estimates are evaluated on an annual basis or whenever events or changes in circumstances indicate that the previous assumptions and factors have changed. The results of the analysis could result in adjustments to estimates.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Inventories

Inventories are comprised of the following (in thousands):

	June 30, 2016	September 30, 2016
Finished goods	$ 29,790	$ 33,473
Work in progress	2,298	2,792
Raw materials	2,521	2,609
	$ 34,609	$ 38,874

Property, Plant and Equipment

Property, plant and equipment consist of the following (in thousands):

	Estimated Useful Life	June 30, 2016	September 30, 2016
Land		$ 2,168	$ 2,168
Building and improvements	10 40 years	4,887	4,887
Transportation and plant equipment (including capital lease assets)	3 20 years	38,424	39,037
Furniture, fixtures and office equipment	3 10 years	9,531	9,833
		55,010	55,925
Less accumulated depreciation and amortization		(28,059)	(29,800)
		$ 26,951	$ 26,125

Lease Fleet

The Company has a fleet of storage, portable building, office and portable liquid storage tank containers, mobile offices, modular buildings and steps that it primarily leases to customers under operating lease agreements with varying terms. Units in the lease fleet are also available for sale. The cost of sales of a unit in the lease fleet is recognized at the carrying amount at the date of sale. At June 30, 2016 and September 30, 2016, the gross costs of the lease fleet were $503,817,000 and $514,320,000, respectively.

Goodwill and Other Intangible Assets

The purchase consideration of acquired businesses have been allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates (see Note 4). Based on these values, the excess purchase consideration over the fair value of the net assets acquired was allocated to goodwill. The Company accounts for goodwill in accordance with FASB ASC Topic 350, *Intangibles Goodwill and Other*. FASB ASC Topic 350 prohibits the amortization of goodwill and intangible assets with indefinite lives and requires these assets be reviewed for impairment. The Company operates two reportable geographic areas and the vast majority of goodwill recorded was in the acquisitions of Royal Wolf, Pac-Van, Southern Frac and Lone Star.

The Company assesses the potential impairment of goodwill on an annual basis or if a determination is made based on a qualitative assessment that it is more likely than not (i.e., greater than 50%) that the fair value of the reporting unit is less than its carrying amount. At March 31, 2016, the Company determined that qualitative factors in its North American leasing and manufacturing operations, pertaining primarily to conditions in the oil and gas market, required an update of the step one impairment analysis for Lone Star and Southern Frac. This updated analysis calculated that even though the excess of the estimated fair value of Lone Star over the carrying value of its invested capital declined, its implied value of goodwill was still greater than its carrying value. However, the Company determined that the implied value of Southern Frac s goodwill was less than the carrying value of its goodwill, resulting in an impairment charge of $2,681,000 at March 31, 2016. At June 30, 2016, the annual step one impairment analysis performed on the North American reporting units, Pac-Van and Lone Star, calculated that the value of goodwill was still greater than its carrying value and that the amount by which the excess of the estimated fair values exceeded their respective carrying value of invested capital at that date was approximately 21% and 12%, respectively, of their book value. Determining the fair value of a reporting unit requires judgment and involves the use of significant estimates and assumptions. The Company based its fair value estimates on assumptions that it believes are reasonable but are uncertain and subject to changes in market conditions.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Other intangible assets include those with indefinite (trademark and trade name) and finite (primarily customer base and lists, non-compete agreements and deferred financing costs), as follows (in thousands):

	June 30, 2016			September 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademark and trade name	$ 5,486	$ (302)	$ 5,184	$ 5,486	$ (378)	$ 5,108
Customer base and lists	50,669	(30,064)	20,605	47,155	(27,300)	19,855
Non-compete agreements	14,169	(9,810)	4,359	9,199	(5,247)	3,952
Deferred financing costs	3,589	(2,381)	1,208	3,614	(2,607)	1,007
Other	3,447	(1,455)	1,992	3,502	(1,626)	1,876
	$ 77,360	$ (44,012)	$ 33,348	$ 68,956	$ (37,158)	$ 31,798

Net Income per Common Share

Basic net income per common share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the periods. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. The potential dilutive securities (common stock equivalents) the Company had outstanding were stock options. The following is a reconciliation of weighted average shares outstanding used in calculating earnings per common share:

	Quarter Ended September 30,	
	2015	2016
Basic	26,008,878	26,218,805
Assumed exercise of stock options		
Diluted	26,008,878	26,218,805

Potential common stock equivalents totaling 2,110,191 and 1,605,587 for FY 2016and FY 2017, respectively, have been excluded from the computation of diluted earnings per share because the effect is anti-dilutive.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Imputation of Interest (Subtopic 835-30).* The amendments in this update require that debt issuance (or deferred financing) costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of debt discounts. In August 2015, the FASB issued ASU No. 2015-15 which added SEC guidance that stated in the absence of authoritative guidance within ASU 2015-03 of debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted these updates in FY 2017 and, as a result, unamortized debt issuance costs totaling $2,239,000 and $2,102,000 as of June 30, 2016 and September 30, 2016, respectively, have been deducted from the carrying amounts of the Credit Suisse Term Loan and Senior Notes (see Note 5) in the accompanying consolidated balance sheets. Unamortized deferred financing costs related to the Asia-Pacific and North American senior credit facilities are included in the caption Other intangible assets, net in the accompanying consolidated balance sheets.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09*, Revenue from Contracts with Customers* (*Topic 606)*. ASU 2014-09 completes the joint effort by the FASB and IASB to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (IFRS). The ASU 2014-09 revenue recognition model virtually replaces all existing revenue recognition guidance and applies to all companies that enter into contracts with customers to transfer goods or services. ASU 2014-09 (as updated by ASU 2015-14 in August 2015, ASU No. 2016-08 in March 2016, ASU No. 10 in April 2016 and ASU No. 12 in May 2016) is effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Public and nonpublic entities have the choice to apply ASU 2014-09 either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying ASU 2014-09 at the date of initial application and not adjusting comparative information. The Company is evaluating the requirements of ASU 2014-09 and has not determined the effect of this ASU in the presentation of its consolidated financial statements.

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

In February 2016, the FASB issued new lease accounting guidance in ASU No. 2016-02, *Leases (Topic 842)*. This new guidance was initiated as a joint project with the International Accounting Standards Board to simplify lease accounting and improve the quality of and comparability of financial information for users. This new guidance would eliminate the concept of off-balance sheet treatment for operating leases for lessees for the vast majority of lease contracts. Under ASU No. 2016-02, at inception, a lessee must classify all leases with a term of over one year as either finance or operating, with both classifications resulting in the recognition of a defined right-of-use asset and a lease liability on the balance sheet. However, recognition in the income statement will differ depending on the lease classification, with finance leases recognizing the amortization of the right-of-use asset separate from the interest on the lease liability and operating leases recognizing a single total lease expense. Lessor accounting under ASU No. 2016-02 would be substantially unchanged from the previous lease requirements under U.S. GAAP. ASU No. 2016-02 will take effect for public companies in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted and for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. The Company believes the adoption of ASU No. 2016-02 will have a material effect in the presentation of its consolidated financial statements.

In August 2016, the FASB issued No. ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, to clarify whether eight specific cash flow issues should be categorized as operating, investing or financing in the statement of cash flows. ASU No. 2016-15 will be effective for public companies in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe the requirements of this ASU will have a material effect in the presentation of its consolidated financial statements.

Note 3. Equity Transactions

Preferred Stock

Upon issuance of shares of preferred stock, the Company records the liquidation value as the preferred equity in the consolidated balance sheet, with any underwriting discount and issuance or offering costs recorded as a reduction in additional paid-in capital.

Series B Preferred Stock

The Company has outstanding privately-placed 8.00% Series B Cumulative Preferred Stock, par value of $0.0001 per share and liquidation value of $1,000 per share (Series B Preferred Stock). The Series B Preferred Stock is offered primarily in connection with business combinations. At June 30, 2016 and September 30, 2016, the Company had outstanding 100 shares of Series B Preferred Stock with an aggregate liquidation preference totaling $102,000. The Series B Preferred Stock is not convertible into GFN common stock, has no voting rights, except as required by Delaware law, and is redeemable after February 1, 2014; at which time it may be redeemed at any time, in whole or in part, at the Company s option. Holders of the Series B Preferred Stock are entitled to receive, when declared by the

Company s Board of Directors, annual dividends payable quarterly in arrears on the 31st day of January, July and October and on the 30th day of April of each year. In the event of any liquidation or winding up of the Company, the holders of the Series B Preferred Stock will have preference to holders of common stock.

Series C Preferred Stock

The Company has outstanding publicly-traded 9.00% Series C Cumulative Redeemable Perpetual Preferred Stock, liquidation preference $100.00 per share (the Series C Preferred Stock). At June 30, 2016 and September 30, 2016, the Company had outstanding 400,000 shares of Series C Preferred Stock with an aggregate liquidation preference totaling $40,620,000. Dividends on the Series C Preferred Stock are cumulative from the date of original issue and will be payable on the 31st day of each January, July and October and on the 30th day of April when, as and if declared by the Company s Board of Directors. Commencing on May 17, 2018, the Company may redeem, at its option, the Series C Preferred Stock, in whole or in part, at a cash redemption price of $100.00 per share, plus any accrued and unpaid dividends to, but not including, the redemption date. Among other things, the Series C Preferred Stock has no stated maturity, is not subject to any sinking fund or other mandatory redemption, and is not convertible into or exchangeable for any of the Company s other securities. Holders of the Series C Preferred Stock generally will have no voting rights, except for limited voting rights if dividends payable on the outstanding Series C Preferred Stock are in arrears for six or more consecutive or non-consecutive quarters, and under certain other circumstances. If the Company fails to maintain the listing of the Series C Preferred Stock on the NASDAQ Stock Market (NASDAQ) for 30 days or more, the per annum dividend rate will increase by an additional 2.00% per $100.00 stated liquidation value ($2.00 per annum per share) so long as the listing failure continues. In addition, in the event of any liquidation or winding up of the Company, the holders of the Series C Preferred Stock will have preference to holders of common stock and are pair passu with the Series B Preferred Stock. The Series C Preferred Stock is listed on NASDAQ under the symbol GFNCP.

GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Dividends

As of September 30, 2016, since issuance, dividends paid or payable totaled $79,000 for the Series B Preferred Stock and dividends paid totaled $11,710,000 for the Series C Preferred Stock. The characterization of dividends to the recipients for Federal income tax purposes is made based upon the earnings and profits of the Company, as defined by the Internal Revenue Code.

Royal Wolf Dividends

On August 12, 2015, the Board of Directors of Royal Wolf declared a dividend of AUS$0.05 per RWH share payable on October 2, 2015 to shareholders of record on September 17, 2015. On August 10, 2016, the Board of Directors of Royal Wolf declared a dividend of AUS$0.025 per RWH share payable on October 4, 2016 to shareholders of record on September 16, 2016.

The consolidated financial statements reflect the amount of the dividends pertaining to the noncontrolling interest.

Note 4. Acquisitions

The Company can enhance its business and market share by entering into new markets in various ways, including starting up a new location or acquiring a business consisting of container, modular unit or mobile office assets of another entity. An acquisition generally provides the Company with operations that enables it to at least cover existing overhead costs and is preferable to a start-up or greenfield location. The businesses discussed below were acquired primarily to expand the Company s container lease fleet. The accompanying consolidated financial statements include the operations of the acquired businesses from the dates of acquisition.

On July 22, 2016, the Company, through Pac-Van, purchased the container business of The Great Container Company, Ltd. (GCC), for $662,000 (C$869,000), which included holdback and other adjustment amounts totaling $102,000 (C$133,000). GCC is located in Vancouver, British Columbia.

On July 27, 2016, the Company, through Pac-Van, purchased the business of Container Systems Storage, Inc. (CSS), for $1,667,000, which included holdback and other adjustment amounts totaling approximately $120,000. CSS, which is located in Yakima, Washington, leases and sells storage containers in the state of Washington and in northern Oregon.

The preliminary allocation for the acquisition in FY 2017 to tangible and intangible assets acquired and liabilities assumed based on their estimated fair market values was as follows (in thousands):

	GCC	CSS	Total

	July 22, 2016	July 27, 2016	
Fair value of the net tangible assets acquired and liabilities assumed:			
Trade and other receivables	$ 5	$ 57	$ 62
Inventories	66	211	277
Property, plant and equipment	23	44	67
Lease fleet	352	615	967
Accounts payables and accrued liabilities		(7)	(7)
Unearned revenue and advance payments	(21)	(36)	(57)
Deferred income taxes		(241)	(241)
Total net tangible assets acquired and liabilities assumed	425	643	1,068
Fair value of intangible assets acquired:			
Non-compete agreement	21	29	50
Customer lists/relationships	138	312	450
Goodwill	78	683	761
Total intangible assets acquired	237	1,024	1,261
Total purchase consideration	$ 662	$ 1,667	$ 2,329

The FY 2017 operating results of all acquisitions prior to and since their respective dates of acquisition were not considered significant.

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Goodwill recognized is attributable primarily to expected corporate synergies, the assembled workforce and other factors. The goodwill recognized in both the GCC and CSS acquisitions are not deductible for U.S. income tax purposes.

The Company incurred approximately $44,000 during FY 2016 and $17,000 during FY 2017 of incremental transaction costs associated with acquisition-related activity that were expensed as incurred and are included in selling and general expenses in the accompanying consolidated statements of operations.

Note 5. Senior and Other Debt

Asia-Pacific Leasing Senior Credit Facility

Royal Wolf has a $133,627,000 (AUS$175,000,000) secured senior credit facility, as amended, under a common terms deed arrangement with the Australia and New Zealand Banking Group Limited (ANZ) and Commonwealth Bank of Australia (CBA) (the ANZ/CBA Credit Facility). Under the common deed arrangement of the ANZ/CBA Credit Facility, ANZ s proportionate share of the borrowing capacity is $80,176,000 (AUS$105,000,000) and CBA s proportionate share is $53,451,000 (AUS$70,000,000). The ANZ/CBA Credit Facility has $95,448,000 (AUS$125,000,000) maturing on July 31, 2017 (Facility A), and $38,179,000 (AUS$50,000,000) maturing on July 31, 2019 (Facility B).

Borrowings under the ANZ/CBA Credit Facility bear interest at the bank bill swap interest rate in Australia (BBSY) or New Zealand (BKBM), plus a margin of 1.10% - 2.10% per annum on Facility A and 1.35% - 2.40% on Facility B, depending on the net debt leverage ratio (NDLR), as defined. The CBA proportionate share has a minimum margin that is 0.10% higher than the ANZ proportionate share. At September 30, 2016, the 30-day and 90-day BBSY and BKBM were 1.665% and 1.79% and 2.215% and 2.25%, respectively. The ANZ/CBA Credit Facility also includes a $2,291,000 (AUS$3,000,000) sub-facility to, among other things, facilitate direct and global payments using electronic banking services. The ANZ/CBA Credit Facility, as amended, is subject to certain financial and other customary covenants, including, among other things, compliance with specified interest coverage and net debt ratios based on earnings before interest, income taxes, impairment, depreciation and amortization and other non-operating costs and income (EBITDA) on a semi-annual basis and that borrowings may not exceed a multiple of 3.5 times EBITDA, as defined, through June 30, 2016, and 3.25 times EBITDA thereafter.

At September 30, 2016, total borrowings and availability under the ANZ/CBA Credit Facility totaled $82,487,000 (AUS$108,027,000) and $15,711,000 (AUS$20,576,000), respectively. Of the total borrowings, $80,452,000 (AUS$105,362,000) is drawn under Facility A and $2,035,000 (AUS$2,665,000) is drawn under Facility B.

The above amounts were translated based upon the exchange rate of one Australian dollar to $0.76358 U.S. dollar at September 30, 2016.

North America Senior Credit Facility

The North America leasing (Pac-Van and Lone Star) and manufacturing operations (Southern Frac) have a combined $232,000,000 senior secured revolving credit facility, as amended, with a syndicate led by Wells Fargo Bank, National Association (Wells Fargo) that also includes HSBC Bank USA, NA, the Private Bank and Trust Company, Capital One Business Credit Corp. and OneWest Bank N.A. (the Wells Fargo Credit Facility). The Wells Fargo Credit Facility, which matures on September 7, 2017, effectively not only finances the Company s North American operations, but also the funding requirements for the Series C Preferred Stock (see Note 3), the term loan with Credit Suisse and the publicly-traded unsecured senior notes (see below).

The Wells Fargo Credit Facility includes a $20,000,000 real estate sub-facility to allow the borrowers (including GFNRC) to acquire real estate as collateral. In addition, subject to certain conditions, the amount that may be borrowed under the Wells Fargo Credit Facility may increase by $20,000,000 to a maximum of $252,000,000. The maximum amount of intercompany dividends that Pac-Van and Lone Star are allowed to pay in each fiscal year to GFN for the funding requirements of GFN s senior and other debt and the Series C Preferred Stock are (a) the lesser of $5,000,000 for the Series C Preferred Stock or the amount equal to the dividend rate of the Series C Preferred Stock and its aggregate liquidation preference and the actual amount of dividends required to be paid to the Series C Preferred Stock; (b) the lesser of $3,125,000 for the term loan with Credit Suisse or the actual annual interest to be paid; and (c) $6,120,000 for the public offering of unsecured senior notes or the actual amount of annual interest required to be paid; provided that (i) the payment of such dividends does not cause a default or event of default; (ii) each of Pac-Van and Lone Star is solvent; (iii) excess availability, as defined, is $5,000,000 or more under the Wells Fargo Credit Facility; (iv) the fixed charge coverage ratio, as defined, will be greater than 1.25 to 1.00; and (v) the dividends are paid no earlier than ten business days prior to the date they are due.

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Borrowings under the Wells Fargo Credit Facility accrue interest, at the Company s option, either at the base rate, plus 0.5% and a range of 1.00% to 1.50%, or the LIBOR rate, plus 1.0% and a range of 2.50% to 3.00%. Borrowings under the $20,000,000 real estate sub-facility accrue interest, at the Company s option, either at the base rate, plus a range of 1.50% to 2.00%, or the LIBOR rate, plus a range of 3.0% to 3.50%. The Wells Fargo Credit Facility contains, among other things, certain financial covenants, including fixed charge coverage ratios, and other covenants, representations, warranties, indemnification provisions, and events of default that are customary for senior secured credit facilities; including a covenant that would require repayment upon a change in control, as defined. At September 30, 2016, borrowings and availability under the Wells Fargo Credit Facility totaled $193,104,000 and $23,255,000, respectively.

Credit Suisse Term Loan

On March 31, 2014, the Company entered into a $25,000,000 facility agreement, as amended, with Credit Suisse (Credit Suisse Term Loan) as part of the financing for the acquisition of Lone Star and, on April 3, 2014, the Company borrowed the $25,000,000 available to it. The Credit Suisse Term Loan provides that the amount borrowed will bear interest at LIBOR plus 7.50% per year, will be payable quarterly and that all principal and interest will mature on July 1, 2017. In addition, the Credit Suisse Term Loan is secured by a first ranking pledge over substantially all shares of RWH owned by GFN U.S., requires a certain coverage maintenance ratio in U.S. dollars based on the value of the RWH shares and, among other things, that an amount equal to six-months interest be deposited in an interest reserve account pledged to secure repayment of all amounts borrowed. The Company has repaid, prior to maturity, $15,000,000 of the outstanding borrowings of the Credit Suisse Term Loan and, as of September 30, 2016, $9,898,000 remained outstanding, net of unamortized debt issuance costs of $102,000.

Senior Notes

The Company has outstanding publicly-traded senior notes (the Senior Notes) in an aggregate principal amount of $72,000,000 ($70,000,000, net of unamortized debt issuance costs of $2,000,000 at September 30, 2016). The Senior Notes were issued in minimum denominations of $25 and integral multiples of $25 in excess thereof and pursuant to the First Supplemental Indenture (the First Supplemental Indenture) dated as of June 18, 2014 by and between the Company and Wells Fargo, as trustee (the Trustee). The First Supplemental Indenture supplements the Indenture entered into by and between the Company and the Trustee dated as of June 18, 2014 (the Base Indenture and, together with the First Supplemental Indenture, the Indenture). The Senior Notes bear interest at the rate of 8.125% per annum, mature on July 31, 2021 and are not subject to any sinking fund. Interest on the Senior Notes is payable quarterly in arrears on January 31, April 30, July 31 and October 31, commencing on July 31, 2014.

The Senior Notes rank equally in right of payment with all of the Company s existing and future unsecured senior debt and senior in right of payment to all of its existing and future subordinated debt. The Senior Notes are effectively subordinated to any of the Company s existing and future secured debt, to the extent of the value of the assets securing such debt. The Senior Notes are structurally subordinated to all existing and future liabilities of the Company s subsidiaries and are not guaranteed by any of the Company s subsidiaries. The Company may, at its option, prior to July 31, 2017, redeem the Senior Notes in whole or in part upon the payment of 100% of the principal amount of the

Senior Notes being redeemed plus any additional amount required by the Indenture. In addition, the Company may from time to time redeem up to 35% of the aggregate outstanding principal amount of the Senior Notes before July 31, 2017 with the net cash proceeds from certain equity offerings at a redemption price of 108.125% of the principal amount plus accrued and unpaid interest. If the Company sells certain of its assets or experiences specific kinds of changes in control, as defined, it must offer to redeem the Senior Notes. The Company may, at its option, at any time and from time to time, on or after July 31, 2017, redeem the Senior Notes in whole or in part. The Senior Notes will be redeemable at a redemption price initially equal to 106.094% of the principal amount of the Senior Notes (and which declines each year on July 31) plus accrued and unpaid interest to the date of redemption. On and after any redemption date, interest will cease to accrue on the redeemed Senior Notes.

The Indenture contains covenants which, among other things, limit the Company s ability to make certain payments, to pay dividends and to incur additional indebtedness if the incurrence of such indebtedness would cause the company s consolidated fixed charge coverage ratio, as defined in the Indenture, to be below 2.0 to 1.0. The Senior Notes are listed on NASDAQ under the symbol GFNSL.

Other

At September 30, 2016, other debt totaled $10,240,000.

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The Company was in compliance with the financial covenants under all its credit facilities as of September 30, 2016.

The weighted-average interest rate in the Asia-Pacific area was 5.5% and 5.0% in FY 2016 and FY 2017, respectively; which does not include the effect of translation, interest rate swap contracts and options and the amortization of deferred financing costs. The weighted-average interest rate in North America was 4.9% in both FY 2016 and FY 2017, respectively, which does not include the effect of the amortization of deferred financing costs and accretion of interest.

Note 6. Financial Instruments

Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, as follows:

Level 1 - Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 - Observable inputs, other than Level 1 inputs in active markets, that are observable either directly or indirectly; and

Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Company s derivative instruments are not traded on a market exchange; therefore, the fair values are determined using valuation models that include assumptions about yield curve at the reporting dates as well as counter-party credit risk. The assumptions are generally derived from market-observable data. The Company has consistently applied these calculation techniques to all periods presented, which are considered Level 2. Derivative instruments measured at fair value and their classification in the consolidated balances sheets and statements of operations are as follows (in thousands):

		Derivative - Fair Value (Level 2)	
Type of Derivative	**Balance Sheet Classification**	**June 30, 2016**	**September 30, 2016**

Contract					
Swap Contracts and Options (Caps and Collars)	Trade payables and accrued liabilities	$	871	$	710
Forward-Exchange Contracts	Trade payables and accrued liabilities		255		198

Type of Derivative

Contract	Statement of Operations Classification		Quarter Ended September 30, 2015		Quarter Ended September 30, 2016
Forward-Exchange Contracts	Unrealized foreign currency exchange gain (loss) and other	$	762	$	81

Interest Rate Swap Contracts

The Company s exposure to market risk for changes in interest rates relates primarily to its senior and other debt obligations. The Company s policy is to manage its interest expense by using a mix of fixed and variable rate debt.

To manage its exposure to variable interest rates in a cost-efficient manner, the Company enters into interest rate swaps and interest rate options, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps and options are designated to hedge changes in the interest rate of a portion of the outstanding borrowings in the Asia-Pacific area. In August 2012, the Company entered into an interest swap contract that was designated as a cash flow hedge. This cash flow hedge was determined to be highly effective and, therefore, changes in the fair value of the effective portion were recorded in accumulated other comprehensive income. The Company expects this derivative to remain effective during the term of the swap; however, any changes in the portion of the hedge considered ineffective would be recorded in interest expense in the consolidated statement of operations. There was no ineffective portion recorded in FY 2016 and FY 2017.

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The Company s interest rate derivative instruments are not traded on a market exchange; therefore, the fair values are determined using valuation models which include assumptions about the interest rate yield curve at the reporting dates (Level 2 fair value measurement). As of June 30, 2016 and September 30, 2016, there was one open interest rate swap contract that was designated as a cash flow hedge and matures in June 2017, as follows (dollars in thousands):

	June 30, 2016		September 30, 2016	
	Swap	Option (Cap)	Swap	Option
Notional amounts	$ 37,213	$	$ 38,179	$
Fixed/Strike Rates	3.98%		3.98%	
Floating Rates	1.90%		1.665%	
Fair Value of Combined Contracts	$ (871)	$	$ (710)	$

Foreign Currency Risk

The Company has transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the functional currency. The currency giving rise to this risk is primarily U.S. dollars. Royal Wolf has a bank account denominated in U.S. dollars into which a small number of customers pay their debts. This is a natural hedge against fluctuations in the exchange rate. The funds are then used to pay suppliers, avoiding the need to convert to Australian dollars. Royal Wolf uses forward currency and participating forward contracts to eliminate the currency exposures on the majority of its transactions denominated in foreign currencies, either by transaction if the amount is significant, or on a general cash flow hedge basis. The forward currency and participating forward contracts are always in the same currency as the hedged item. The Company believes that financial instruments designated as foreign currency hedges are highly effective. However documentation of such as required by ASC Topic 815 does not exist. Therefore, all movements in the fair values of these hedges are reported in the statement of operations in the period in which fair values change. As of June 30, 2016, there were 49 open forward exchange contracts that mature between July 2016 and November 2016; and as of September 30, 2016, there were 28 open forward exchange contracts that mature between October 2016 and December 2016, as follows (dollars in thousands):

	June 30, 2016		September 30, 2016	
	Forward Exchange		Forward Exchange	Participating

				Participating Forward				Forward
Notional amounts	$		8,617	$	$		5,337	$
Exchange/Strike Rates (AUD to USD)		0.6460	0.7803			0.66349	0.76146	
Fair Value of Combined Contracts	$		(255)	$	$		(198)	$

In FY 2016 and FY 2017, net unrealized and realized foreign exchange gains (losses) totaled $(654,000) and $5,000 and $(153,000) and $(17,000), respectively.

Fair Value of Other Financial Instruments

The fair value of the Company s borrowings under the Senior Notes was determined based on a Level 1 input and for borrowings under its senior credit facilities and Credit Suisse Term Loan determined based on Level 3 inputs; including a comparison to a group of comparable industry debt issuances (Industry Comparable Debt Issuances) and a study of credit (Credit Spread Analysis). Under the Industry Comparable Debt Issuance method, the Company compared the debt facilities to several industry comparable debt issuances. This method consisted of an analysis of the offering yields compared to the current yields on publicly traded debt securities. Under the Credit Spread Analysis, the Company first examined the implied credit spreads of the United States Federal Reserve. Based on this analysis the Company was able to assess the credit market. The fair value of the Company s senior credit facilities as of June 30, 2016 was determined to be approximately $336,901,000. The Company also determined that the fair value of its other debt of $8,818,000 at June 30, 2016, approximated or would not vary significantly from their carrying values. The Company believes that market conditions at September 30, 2016 have not changed significantly from June 30, 2016. Therefore, the proportion of the fair value to the carrying value of the Company s senior credit facilities and other debt at September 30, 2016 would not vary significantly from the proportion determined at June 30, 2016.

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Under the provisions of FASB ASC Topic 825, *Financial Instruments,* the carrying value of the Company s other financial instruments (consisting primarily of cash and cash equivalents, net receivables, trade payables and accrued liabilities) approximate fair value.

Note 7. Related-Party Transactions

Effective January 31, 2008, the Company entered into a lease with an affiliate of the Company s chief executive officer for its corporate headquarters in Pasadena, California. The rent is $7,393 per month, effective March 1, 2009, plus allocated charges for common area maintenance, real property taxes and insurance, for approximately 3,000 square feet of office space. The term of the lease is five years, with two five-year renewal options, and the rent is adjusted yearly based on the consumer price index. On October 11, 2012, the Company exercised its option to renew the lease for an additional five-year term commencing February 1, 2013. Rental payments were $28,000 in both FY 2016 and FY 2017.

The premises of Pac-Van s Las Vegas branch is owned by and leased from the acting branch manager through December 31, 2014, with the right for an additional two-year extension through December 31, 2016. On December 29, 2014, the Company extended the lease for the additional two years. Rental payments on this lease totaled $30,000 during both FY 2016 and FY 2017.

Note 8. Equity Plans

On September 11, 2014, the Board of Directors of the Company adopted the 2014 Stock Incentive Plan (the 2014 Plan), which was approved by the stockholders at the Company s annual meeting on December 4, 2014 and amended and restated by the stockholders at the annual meeting on December 3, 2015. The 2014 Plan is an omnibus incentive plan permitting a variety of equity programs designed to provide flexibility in implementing equity and cash awards, including incentive stock options, nonqualified stock options, restricted stock grants (non-vested equity shares), restricted stock units, stock appreciation rights, performance stock, performance units and other stock-based awards. Participants in the 2014 Plan may be granted any one of the equity awards or any combination of them, as determined by the Board of Directors or the Compensation Committee. Upon the approval of the 2014 Plan by the stockholders, the Company suspended further grants under its previous equity plans, the General Finance Corporation 2006 Stock Option Plan (the 2006 Plan) and the 2009 Stock Incentive Plan (the 2009 Plan) (collectively the Predecessor Plans), which had a total of 2,500,000 shares reserved for grant. Any stock options which are forfeited under the Predecessor Plans will become available for grant under the 2014 Plan, but the total number of shares available under the 2014 Plan will not exceed the 1,500,000 shares reserved for grant under the 2014 Plan, plus any options which were forfeited or are available for grant under the Predecessor Plans. If not sooner terminated by the Board of Directors, the 2014 Plan will expire on December 4, 2024, which is the tenth anniversary of the date it was approved by the Company s stockholders. The 2006 Plan expired on June 30, 2016 and the 2009 Plan will expire on December 10, 2019. The Predecessor Plans and the 2014 Plan are referred to collectively as the Stock Incentive Plan.

There have been no grants or awards of restricted stock units, stock appreciation rights, performance stock or performance units under the Stock Incentive Plan. All grants to-date consist of incentive and non-qualified stock options that vest over a period of up to five years (time-based), non-qualified stock options that vest over varying periods that are dependent on the attainment of certain defined EBITDA and other targets (performance-based) and non-vested equity shares. At September 30, 2016, 1,047,610 shares remained available for grant.

Since inception, the range of the fair value of the stock options granted (other than to non-employee consultants) and the assumptions used are as follows:

Fair value of stock options	$0.81 - $6.35
Assumptions used:	
Risk-free interest rate	1.19% - 4.8%
Expected life (in years)	7.5
Expected volatility	26.5% - 84.6%
Expected dividends	

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At September 30, 2016, there were no significant outstanding stock options held by non-employee consultants that were not fully vested. A summary of the Company s stock option activity and related information for FY 2017 follows:

	Number of Options (Shares)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at June 30, 2016	2,183,224	$ 5.30	
Granted			
Exercised	(3,000)	1.06	
Forfeited or expired	(226,667)	7.29	
Outstanding at September 30, 2016	1,953,557	$ 5.08	4.9
Vested and expected to vest at September 30, 2016	1,953,557	$ 5.08	4.9
Exercisable at September 30, 2016	1,622,523	$ 4.96	4.1

At September 30, 2016, outstanding time-based options and performance-based options totaled 1,184,847 and 768,710, respectively. Also at that date, the Company s market price for its common stock was $4.50 per share, which was below the exercise prices of approximately 54% of the outstanding stock options. The intrinsic value of the outstanding stock options at that date was $1,566,000. Share-based compensation of $6,773,000 related to stock options has been recognized in the consolidated statements of operations, with a corresponding benefit to equity, from inception through September 30, 2016. At that date, there remains $969,000 of unrecognized compensation expense to be recorded on a straight-line basis over the remaining weighted-average vesting period of 1.9 years.

A deduction is not allowed for U.S. income tax purposes with respect to non-qualified options granted in the United States until the stock options are exercised or, with respect to incentive stock options issued in the United States, unless the optionee makes a disqualifying disposition of the underlying shares. The amount of any deduction will be the difference between the fair value of the Company s common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the U.S. tax effect of the financial statement expense recorded related to stock option grants in the United States. The tax effect of the U.S. income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital.

A summary of the Company s non-vested equity share activity follows:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at June 30, 2016	373,507	$ 4.20
Granted		
Vested	(110,500)	4.43
Forfeited		
Nonvested at September 30, 2016	263,007	$ 4.10

Share-based compensation of $1,648,000 related to non-vested equity shares has been recognized in the consolidated statements of operations, with a corresponding benefit to equity, from inception through September 30, 2016. At that date, there remains $822,000 of unrecognized compensation expense to be recorded on a straight-line basis over the remaining vesting period of over approximately 0.24 years 2.75 years for the non-vested equity shares.

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Royal Wolf Long Term Incentive Plan

Royal Wolf established the Royal Wolf Long Term Incentive Plan (the LTI Plan) in conjunction with its initial public offering in May 2011. Under the LTI Plan, the RWH Board of Directors may grant, at its discretion, options, performance rights and/or restricted shares of RWH capital stock to Royal Wolf employees and executive directors. Vesting terms and conditions may be up to four years and, generally, will be subject to performance criteria based primarily on enhancing shareholder returns using a number of key financial benchmarks, including EBITDA. In addition, unless the RWH Board determines otherwise, if an option, performance right or restricted share has not lapsed or been forfeited earlier, it will terminate at the seventh anniversary from the date of grant.

It is intended that up to one percent of RWH s outstanding capital stock will be reserved for grant under the LTI Plan and a trust will be established to hold RWH shares for this purpose. However, so long as the Company holds more than 50% of the outstanding shares of RWH capital stock, RWH shares reserved for grant under the LTI Plan are required to be purchased in the open market unless the Company agrees otherwise. The LTI Plan, among other provisions, does not permit the transfer, sale, mortgage or encumbering of options, performance rights and restricted shares without the prior approval of the RWH Board. In the event of a change of control, the RWH Board, at its discretion, will determine whether, and how many, unvested options, performance rights and restricted shares will vest. In addition, if, in the RWH Board s opinion, a participant acts fraudulently or dishonestly or is in breach of his obligations to Royal Wolf, the RWH Board may deem any options, performance rights and restricted shares held by or reserved for the participant to have lapsed or been forfeited.

As of September 30, 2016, Royal Wolf has granted, net of forfeitures, 1,288,841 performance rights to key management personnel under the LTI Plan. Also, as of September 30, 2016, 642,582 of the performance rights have been converted into RWH capital stock through purchases in the open market. In FY 2016 and FY 2017, share-based compensation of $131,000 and $(716,000), respectively, related to the LTI Plan has been recognized in the consolidated statements of operations, with a corresponding offset to equity.

Note 9. Commitments and Contingencies

The Company is not involved in any material lawsuits or claims arising out of the normal course of business. The nature of its business is such that disputes can occasionally arise with employees, vendors (including suppliers and subcontractors) and customers over warranties, contract specifications and contract interpretations among other things. The Company assesses these matters on a case-by-case basis as they arise. Reserves are established, as required, based on its assessment of its exposure. The Company has insurance policies to cover general liability and workers compensation-related claims. In the opinion of management, the ultimate amount of liability not covered by insurance under pending litigation and claims, if any, will not have a material adverse effect on our financial position, operating results or cash flows.

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Note 10. Cash Flows from Operating Activities and Other Financial Information

The following table provides a detail of cash flows from operating activities (in thousands):

	Quarter Ended September 30,	
	2016	2017
Cash flows from operating activities		
Net loss	$ (535)	$ (744)
Adjustments to reconcile net income to cash flows from operating activities:		
Gain on sales and disposals of property, plant and equipment	(14)	(8)
Loss (gain) on sales of lease fleet	(2,138)	547
Unrealized foreign exchange loss	654	153
Unrealized gain on forward exchange contracts	(762)	(81)
Depreciation and amortization	9,286	9,701
Amortization of deferred financing costs	387	348
Accretion of interest	147	66
Share-based compensation expense	626	(405)
Deferred income taxes	(1,139)	(1,818)
Changes in operating assets and liabilities (excluding assets and liabilities from acquisitions):		
Trade and other receivables, net	1,969	(1,201)
Inventories	(7,763)	(3,403)
Prepaid expenses and other	(1,548)	(227)
Trade payables, accrued liabilities and unearned revenues	15,340	(3,286)
Income taxes	(408)	
Net cash provided by operating activities	$ 14,102	$ (358)

Note 11. Segment Reporting

We have two geographic areas that include four operating segments; the Asia-Pacific area, consisting of the leasing operations of Royal Wolf, and North America, consisting of the combined leasing operations of Pac-Van and Lone Star, and the manufacturing operations of Southern Frac. Discrete financial data on each of the Company s products is not available and it would be impractical to collect and maintain financial data in such a manner. In managing the Company s business, senior management focuses on primarily growing its leasing revenues and operating cash flow

(EBITDA), and investing in its lease fleet through capital purchases and acquisitions.

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Transactions between reportable segments included in the tables below are recorded on an arms-length basis at market in conformity with U.S. GAAP and the Company s significant accounting policies (see Note 2). The tables below represent the Company s revenues from external customers, share-based compensation expense, depreciation and amortization, operating income, interest income and expense, expenditures for additions to long-lived assets (consisting of lease fleet and property, plant and equipment), long-lived assets and goodwill; as attributed to its geographic and operating segments (in thousands):

	Quarter Ended September 30, 2016						
	North America						
	Leasing						
	Pac-Van	Lone Star	Combined	Manufacturing	Corporate and Intercompany Adjustments	Total	Asia Pacific Leasing
Revenues:							
Sales	$ 10,430	$ -	$ 10,430	$ 1,651	$ (557)	$ 11,524	$ 9,942
Leasing	23,349	3,820	27,169	-	(53)	27,116	14,216
	$ 33,779	$ 3,820	$ 37,599	$ 1,651	$ (610)	$ 38,640	$ 24,158
Share-based compensation	$ 75	$ 10	$ 85	$ 22	$ 204	$ 311	$ (716)
Depreciation and amortization	$ 3,456	$ 2,425	$ 5,881	$ 198	$ (186)	$ 5,893	$ 3,808
Operating income	$ 4,052	$ (1,446)	$ 2,606	$ (618)	$ (1,188)	$ 800	$ 2,863

Interest income	$ -	$ -	$ -	$ -	$ 8	$ 8	$ 15
Interest expense	$ 1,644	$ 281	$ 1,925	$ 81	$ 1,809	$ 3,815	$ 1,016
Additions to long-lived assets	$ 7,642	$ 4	$ 7,646	$ -	$ (74)	$ 7,572	$ 4,675
				At September 30, 2016			
Long-lived assets	$ 243,344	$ 56,897	$ 300,241	$ 3,119	$ (10,909)	$ 292,451	$ 157,880
Goodwill	$ 55,867	$ 20,782	$ 76,649	$ -	$ -	$ 76,649	$ 27,336
				At June 30, 2016			
Long-lived assets	$ 239,459	$ 58,492	$ 297,951	$ 3,318	$ (10,975)	$ 290,294	$ 156,002
Goodwill	$ 55,122	$ 20,782	$ 75,904	$ -	$ -	$ 75,904	$ 26,642

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GENERAL FINANCE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

	Quarter Ended September 30, 2015							
	North America							
	Leasing							
	Pac-Van	Lone Star	Combined	Manufacturing	Corporate and Intercompany Adjustments	Total	Asia Pacific Leasing	Consol
Revenues:								
Sales	$ 9,253	$ -	$ 9,253	$ 2,165	$ (28)	$ 11,390	$ 11,068	$ 22
Leasing	20,794	6,965	27,759	-	(33)	27,726	13,602	41
	$ 30,047	$ 6,965	$ 37,012	$ 2,165	$ (61)	$ 39,116	$ 24,670	$ 63
Share-based compensation	$ 102	$ 10	$ 112	$ 37	$ 346	$ 495	$ 131	$
Depreciation and amortization	$ 3,064	$ 2,672	$ 5,736	$ 266	$ (187)	$ 5,815	$ 3,471	$ 9
Operating income	$ 3,676	$ 110	$ 3,786	$ (1,147)	$ (1,336)	$ 1,303	$ 2,696	$ 3
Interest income	$ -	$ -	$ -	$ -	$ -	$ -	$ 17	$
Interest expense	$ 1,337	$ 398	$ 1,735	$ 58	$ 1,956	$ 3,749	$ 1,266	$ 5

Additions to long-lived assets	$	10,717	$	98	$	10,815	$	9	$	1	$	10,825	$	4,937	$	15

Intersegment net revenues from Southern Frac to the North American leasing operations totaled $28,000 and $557,000 during FY 2016 and FY 2017, respectively.

Note 12. Subsequent Events

On October 14, 2016, the Company announced that its Board of Directors declared a cash dividend of $2.30 per share on the Series C Preferred Stock (see Note 3). The dividend is for the period commencing on July 31, 2016 through October 30, 2016, and is payable on October 31, 2016 to holders of record as of October 30, 2016.

Subsequent to September 30, 2016, an appraisal performed under the Wells Fargo Credit Facility reduced the estimated orderly liquidation value of the lease fleet, particularly mobile offices and modular buildings, used as collateral for the Wells Fargo Credit Facility, and the availability to borrow under this facility was reduced to approximately $2,200,000 at October 28, 2016. Senior management believes that future steps to be taken by the Company to manage its business and working with Wells Fargo will increase the amount of borrowing availability.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and the accompanying notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 (the Annual Report) filed with the Securities and Exchange Commission (SEC), as well as the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, should, could, would, expect, plan, anticipate, believe, estimate, continue or the negative of such terms or other similar e Risk factors that might cause or contribute to such discrepancies include, but are not limited to, those described in our Annual Report and other SEC filings. We maintain a web site at *www.generalfinance.com* that makes available, through a link to the SEC s EDGAR system website, our SEC filings.

References to we, us, our or the Company refer to General Finance Corporation, a Delaware corporation (GFN) its consolidated subsidiaries. These subsidiaries include GFN U.S. Australasia Holdings, Inc., a Delaware corporation (GFN U.S.); GFN Insurance Corporation, an Arizona corporation (GFNI); GFN North America Leasing Corporation, a Delaware corporation (GFNNA Leasing); GFN North America Corp., a Delaware corporation (GFNNA); GFN Realty Company, LLC, a Delaware limited liability company (GFNRC); GFN Manufacturing Corporation, a Delaware corporation (GFNMC), and its subsidiary, Southern Frac, LLC, a Texas limited liability company (collectively Southern Frac); Royal Wolf Holdings Limited, an Australian corporation publicly traded on the Australian Securities Exchange (RWH), and its Australian and New Zealand subsidiaries (collectively, Royal Wolf); Pac-Van, Inc., an Indiana corporation, and its Canadian subsidiary, PV Acquisition Corp., an Alberta corporation (collectively Pac-Van); and Lone Star Tank Rental Inc., a Delaware corporation (Lone Star).

Overview

Founded in October 2005, we are a leading specialty rental services company offering portable (or mobile) storage, modular space and liquid containment solutions in these three distinct, but related industries, which we collectively refer to as the portable services industry.

We have two geographic areas that include four operating segments; the Asia-Pacific (or Pan-Pacific) area, consisting of Royal Wolf (which leases and sells storage containers, portable container buildings and freight containers in Australia and New Zealand) and North America, consisting of Pac-Van (which leases and sells storage, office and portable liquid storage tank containers, modular buildings and mobile offices), and Lone Star (see above), which are combined to form our North American Leasing operations, and Southern Frac (which manufactures portable liquid storage tank containers). As of September 30, 2016, our two geographic leasing operations lease and sell their products through twenty-two customer service centers (CSCs) in Australia, ten CSCs in New Zealand, fifty branch locations in the United States and three branch locations in Canada. At that date, we had 254 and 517 employees and 41,486 and 38,165 lease fleet units in the Asia-Pacific area and North America, respectively.

Our lease fleet is comprised of three distinct specialty rental equipment categories that possess attractive asset characteristics and serve our customers on-site temporary needs and applications. These categories match the sectors comprising the portable services industry.

Our portable storage category is segmented into two products: (1) storage containers, which primarily consist of new and used steel shipping containers under International Organization for Standardization (ISO) standards, that provide a flexible, low cost alternative to warehousing, while offering greater security, convenience and immediate accessibility; and (2) freight containers, which are either designed for transport of products by road and rail and are only offered in our Asia-Pacific territory.

Our modular space category is segmented into three products: (1) office containers, which are referred to as portable container buildings in the Asia-Pacific, are either modified or specifically manufactured containers that provide self-contained office space with maximum design flexibility. Office containers in the United States are oftentimes referred to as ground level offices (GLOs); (2) modular buildings, which provide customers with flexible space solutions and are often modified to customer specifications and (3) mobile offices, which are re-locatable units with aluminum or wood exteriors and wood (or steel) frames on a steel carriage fitted with axles, and which allow for an assortment of add-ons to provide convenient temporary space solutions.

Our liquid containment category includes portable liquid storage tanks that are manufactured 500-barrel capacity steel containers with fixed axles for transport. These units are regularly utilized for a variety of applications across a

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wide range of industries, including refinery, petrochemical and industrial plant maintenance, oil and gas services, environmental remediation and field services, infrastructure building construction, marine services, pipeline construction and maintenance, tank terminal services, waste management, wastewater treatment and landfill services.

Results of Operations

Quarter Ended September 30, 2016 (FY 2017) Compared to Quarter Ended September 30, 2015 (FY 2016)

The following compares our FY 2017 results of operations with our FY 2016 results of operations.

Revenues. Revenues decreased $1.0 million, or 2%, to $62.8 million in FY 2017 from $63.8 million in FY 2016. This consisted of a $0.5 million increase, or 1%, in revenues in our North American leasing operations, a decrease of $0.5 million, or 2%, in revenues in the Asia-Pacific area and a decrease of $1.0 million in manufacturing revenues from Southern Frac. The effect of the average currency exchange rate of the stronger Australian dollar relative to the U.S. dollar in FY 2017 versus FY 2016 enhanced the translation of revenues from the Asia-Pacific area. The average currency exchange rate of one Australian dollar during FY 2017 was $0.75828 U.S. dollar compared to $0.7270 U.S. dollar during FY 2016. In Australian dollars, total revenues in the Asia-Pacific area decreased by 4% in FY 2017 from FY 2016.

Excluding Lone Star (doing business solely in the oil and gas sector), total revenues of our North American leasing operations increased by $3.7 million in FY 2017 from FY 2016, primarily in the commercial, industrial, construction and government sectors, which increased by an aggregate $7.2 million; and was partially offset by reductions in the retail, energy (oil and gas and mining) and services sectors totaling $3.5 million. At Lone Star, revenues declined by $3.2 million, or 46%, from $7.0 million in FY 2016 to $3.8 million in FY 2016. The revenue decrease in the Asia-Pacific area occurred primarily in the energy and retail sectors, which decreased between the periods by $0.8 million, and was partially offset by an increase of $0.3 million in the consumer sector. Revenues were impacted by an approximate 4% favorable foreign exchange translation effect between periods.

Sales and leasing revenues represented 33% and 67% of total non-manufacturing revenues, respectively, in both FY 2017 and FY 2016.

Sales during FY 2017 amounted to $21.5 million, compared to $22.5 million during FY 2016; representing a decrease of $1.0 million, or 4%. This consisted of a $1.2 million decrease, or approximately 11%, in sales in the Asia-Pacific area, an increase of $1.2 million, or 13%, in our North American leasing operations and a decrease in manufacturing sales of $1.0 million, or 48%, at Southern Frac. Overall, non-manufacturing sales were comparable in FY 2017 with FY 2016. The decrease in the Asia-Pacific area was comprised of a decrease of $0.9 million ($0.2 million decrease due to lower unit sales, $0.9 million decrease due to lower average prices and a $0.2 million increase due to foreign exchange movements) in the CSC operations and a decrease of $0.3 million due to lower unit sales in the national accounts group, and occurred primarily in the building and construction, government, retail and transportation sectors, which decreased between the periods by $1.6 million; partially offset by an increase of $0.4 million in the consumer sector. In our North American leasing operations, the sales increase in FY 2017 from FY 2016 was primarily in the commercial, industrial, government and construction sectors, which totaled $3.5 million; offset somewhat by decreases in the services, retail and energy sectors totaling $2.3 million. The decrease at Southern Frac was due to the continued low demand for our portable liquid containment tanks caused by soft oil and gas drilling activity, primarily in Texas.

Leasing revenues totaled $41.3 million in both FY 2017 and FY 2016. This consisted of a decrease of $0.6 million, or 2%, in North America, and an increase of $0.6 million, or approximately 5%, in the Asia-Pacific area. In Australian dollars, leasing revenues increased by 2% in the Asia-Pacific area in FY 2017 from FY 2016.

In the Asia-Pacific area, average utilization in the retail and the national accounts group operations was 82% and 60%, respectively, during FY 2017, as compared to 84% and 59% in FY 2016. The overall average utilization decreased slightly to 77% in FY 2017 from 78% in FY 2016; and the average monthly lease rate of containers was AUS$159 in FY 2017 versus AUS$164 in FY 2016. Leasing revenues in FY 2017 decreased in Australian dollars from FY 2016 due to the combination of a lower composite monthly lease rate, caused primarily by a lower average lease rate in portable container buildings between the periods, and the average monthly number of units on lease being approximately 200 lower in FY 2017 as compared to FY 2016.

In our North American leasing operations, average utilization rates were 71%, 79%, 39%, 77% and 81% and average monthly lease rates were $121, $307, $473, $284 and $785 for storage containers, office containers, frac tank containers, mobile offices and modular units, respectively, during FY 2017; as compared to 73%, 81%, 48%, 76% and 80% and average monthly lease rates were $115, $321, $821, $274 and $783 for storage containers, office containers, frac tank containers, mobile offices and modular units in FY 2016, respectively. The average composite utilization rate decreased to 70% in FY 2017 from 73% in FY 2016; however, the composite average monthly number of units on lease was over 3,500 higher in FY 2017 as compared to FY 2016. The increased average monthly number of units on lease and higher monthly lease rates, other than office and frac tank containers, between the years resulted from improved demand in most sectors, but was more than offset by a decrease of $3.9 million in the energy sectors, primarily at Lone Star, while all other sectors increased by $3.3 million.

Cost of Sales. Cost of sales from our lease inventories and fleet (which is the cost related to our sales revenues only and exclusive of the line items discussed below) decreased by $0.7 million from $14.5 million during FY 2016 to $13.8 million during FY 2017, and our gross profit percentage from these non-manufacturing sales improved to 32% in FY 2017 from approximately 29% in FY 2016. Cost of sales from our manufactured products totaled $1.4 million in FY 2017, as compared to $2.8 million in FY 2016, resulting in reducing our gross margin loss from $0.7 million in FY 2016 to $0.3 million in FY 2017. The loss incurred during both periods was due primarily to the lack of volume of tank sales and, though improved between the periods, production inefficiencies from our other steel-based products, primarily chassis. We remain focused on making our chassis and other steel-based products commercially viable in order to diversify outside of our core portable liquid containment business.

Direct Costs of Leasing Operations and Selling and General Expenses. Direct costs of leasing operations and selling and general expenses increased by $1.1 million from $33.3 million during FY 2016 to $34.4 million during FY 2017. As a percentage of revenues, these costs increased to 55% during FY 2017 from 52% in FY 2016 due to operating expenses in our North American operations not proportionately decreasing with lower revenues, primarily as a result of the adverse effect of lower lease and utilization rates between the periods from the continuing soft oil and gas market, primarily in our North American leasing operations.

Depreciation and Amortization. Depreciation and amortization increased by $0.4 million to $9.5 million in FY 2017 from $9.1 million in FY 2016. This consisted of an increase of $0.3 million in the Asia-Pacific area and a $0.1 million increase in North America, primarily as a result of our increased investment in the lease fleet and business acquisitions.

Interest Expense. Interest expense of $4.8 million in FY 2017 was $0.2 million lower than the $5.0 million in FY 2016, consisting of a decrease of $0.3 million in the Asia-Pacific area and a $0.1 million increase in North America. In the Asia-Pacific area, reduced interest expense was due to the weighted-average interest rate of 5.0% (which does not include the effect of translation, interest rate swap contracts and options and the amortization of deferred financing costs) in FY 2017 being lower than the 5.5% in FY 2016, as well as average borrowings being comparatively lower between the periods. However, this was partially offset by the stronger Australian dollar between the periods. In North America, the higher interest expense was due to the higher average borrowings in FY 2017, as compared to FY 2016, since the weighted-average interest rate of 4.9% (which does not include the effect of the accretion of interest and amortization of deferred financing costs) was the same for both periods.

Foreign Currency Exchange and Other. The currency exchange rate of one Australian dollar to one U.S. dollar was $0.7658 at June 30, 2015, $0.6978 at September 30, 2015, $0.74425 at June 30, 2016 and $0.76358 at September 30, 2016. In FY 2016 and FY 2017, net unrealized and realized foreign exchange gains (losses) totaled $(654,000) and $5,000 and $(153,000) and $(17,000), respectively. In addition, in FY 2016 and FY 2017, unrealized exchange gains on forward exchange contracts totaled $762,000 and $81,000, respectively.

Income Taxes. Our effective income tax rate was 40.0% in FY 2017 and FY 2016. The effective rate is greater than the U.S. federal rate of 35% primarily because of state income taxes from the filing of tax returns in multiple U.S. states and the effect of doing business and filing income tax returns in foreign jurisdictions.

Preferred Stock Dividends. In both FY 2017 and FY 2016, we paid $0.9 million primarily on our 9.00% Series C Cumulative Redeemable Perpetual Preferred Stock (the Series C Preferred Stock).

Noncontrolling Interests. Noncontrolling interests in the Royal Wolf and Southern Frac results of operations were approximately $0.5 million and $0.6 million in FY 2017 and FY 2016, respectively, a slight decrease of $0.1 million.

Net Loss Attributable to Common Stockholders. Net loss attributable to common stockholders was $2.1 million in FY 2017 and $2.0 million in FY 2016, a slight increase of $0.1 million.

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Measures not in Accordance with Generally Accepted Accounting Principles in the United States (U.S. GAAP)

Earnings before interest, income taxes, impairment, depreciation and amortization and other non-operating costs and income (EBITDA) and adjusted EBITDA are supplemental measures of our performance that are not required by, or presented in accordance with, U.S. GAAP. These measures are not measurements of our financial performance under U.S. GAAP and should not be considered as alternatives to net income, income from operations or any other performance measures derived in accordance with U.S. GAAP or as an alternative to cash flow from operating, investing or financing activities as a measure of liquidity. Adjusted EBITDA is a non-U.S. GAAP measure. We calculate adjusted EBITDA to eliminate the impact of certain items we do not consider to be indicative of the performance of our ongoing operations. You are encouraged to evaluate each adjustment and whether you consider each to be appropriate. In addition, in evaluating adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the expenses excluded from our presentation of adjusted EBITDA. Our presentation of adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. We present adjusted EBITDA because we consider it to be an important supplemental measure of our performance and because we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, many of which present EBITDA and a form of adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Because of these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or to reduce our indebtedness. We compensate for these limitations by relying primarily on our U.S. GAAP results and using adjusted EBITDA only supplementally. The following table shows our adjusted EBITDA and the reconciliation from net income (in thousands):

	Quarter Ended September 30,	
	2015	**2016**
Net loss	$ (535)	$ (744)
Add (deduct)		
Provision (benefit) for income taxes	(356)	(496)
Foreign currency exchange loss (gain) and other	(108)	95
Interest expense	5,015	4,831
Interest income	(17)	(23)
Depreciation and amortization	9,286	9,701
Share-based compensation expense	626	(405)
Adjusted EBITDA	$ 13,911	$ 12,959

Our business is capital intensive, so from an operating level we focus primarily on EBITDA and adjusted EBITDA to measure our results. These measures provide us with a means to track internally generated cash from which we can fund our interest expense and fleet growth objectives. In managing our business, we regularly compare our adjusted EBITDA margins on a monthly basis. As capital is invested in our established branch (or CSC) locations, we achieve higher adjusted EBITDA margins on that capital than we achieve on capital invested to establish a new branch, because our fixed costs are already in place in connection with the established branches. The fixed costs are those associated with yard and delivery equipment, as well as advertising, sales, marketing and office expenses. With a new market or branch, we must first fund and absorb the start-up costs for setting up the new branch facility, hiring and developing the management and sales team and developing our marketing and advertising programs. A new branch will have low adjusted EBITDA margins in its early years until the number of units on rent increases. Because of our higher operating margins on incremental lease revenue, which we realize on a branch-by-branch basis, when the branch achieves leasing revenues sufficient to cover the branch s fixed costs, leasing revenues in excess of the break-even amount produce large increases in profitability and adjusted EBITDA margins. Conversely, absent significant growth in leasing revenues, the adjusted EBITDA margin at a branch will remain relatively flat on a period by period comparative basis.

Liquidity and Financial Condition

Though we have raised capital at the corporate level to primarily assist in the funding of acquisitions and lease fleet expenditures, as well as for general purposes, our operating units substantially fund their operations through secured bank credit facilities that require compliance with various covenants. These covenants require our operating units to, among other things; maintain certain levels of interest or fixed charge coverage, EBITDA (as defined), utilization rate and overall leverage.

Asia-Pacific Leasing Senior Credit Facility

Royal Wolf has a $133,627,000 (AUS$175,000,000) secured senior credit facility, as amended, under a common terms deed arrangement with the Australia and New Zealand Banking Group Limited (ANZ) and Commonwealth Bank of Australia (CBA) (the ANZ/CBA Credit Facility). Under the common deed arrangement of the ANZ/CBA

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Credit Facility, ANZ s proportionate share of the borrowing capacity is 80,176,000 (AUS$105,000,000) and CBA s proportionate share is $53,451,000 (AUS$70,000,000). The ANZ/CBA Credit Facility has $95,448,000 (AUS$125,000,000) maturing on July 31, 2017 (Facility A), and $38,179,000 (AUS$50,000,000) maturing on July 31, 2019 (Facility B).

North America Senior Credit Facility

Our North America leasing (Pac-Van and Lone Star) and manufacturing operations (Southern Frac) have a combined $232,000,000 senior secured revolving credit facility, as amended, with a syndicate led by Wells Fargo Bank, National Association (Wells Fargo) that also includes HSBC Bank USA, NA, the Private Bank and Trust Company, Capital One Business Credit Corp. and OneWest Bank N.A. (the Wells Fargo Credit Facility). The Wells Fargo Credit Facility, which matures on September 7, 2017, effectively not only finances the Company s North American operations, but also the funding requirements for the Series C Preferred Stock, the term loan with Credit Suisse AG, Singapore Branch (Credit Suisse) and the publicly-traded unsecured senior notes (see below).

The Wells Fargo Credit Facility includes a $20,000,000 real estate sub-facility to allow the borrowers (including GFNRC) to acquire real estate as collateral. In addition, subject to certain conditions, the amount that may be borrowed under the Wells Fargo Credit Facility may increase by $20,000,000 to a maximum of $252,000,000. The maximum amount of intercompany dividends that Pac-Van and Lone Star are allowed to pay in each fiscal year to GFN for the funding requirements of GFN s senior and other debt and the Series C Preferred Stock are (a) the lesser of $5,000,000 for the Series C Preferred Stock or the amount equal to the dividend rate of the Series C Preferred Stock and its aggregate liquidation preference and the actual amount of dividends required to be paid to the Series C Preferred Stock; (b) the lesser of $3,125,000 for the term loan with Credit Suisse or the actual annual interest to be paid; and (c) $6,120,000 for the public offering of unsecured senior notes or the actual amount of annual interest required to be paid; provided that (i) the payment of such dividends does not cause a default or event of default; (ii) each of Pac-Van and Lone Star is solvent; (iii) excess availability, as defined, is $5,000,000 or more under the Wells Fargo Credit Facility; (iv) the fixed charge coverage ratio, as defined, will be greater than 1.25 to 1.00; and (v) the dividends are paid no earlier than ten business days prior to the date they are due.

Corporate Senior and Other Debt

Credit Suisse Term Loan

On March 31, 2014, we entered into a $25,000,000 facility agreement, as amended, with Credit Suisse (Credit Suisse Term Loan) as part of the financing for the acquisition of Lone Star and, on April 3, 2014, we borrowed the $25,000,000 available to it. Since that time we have prepaid $15,000,000 of the initial borrowings, and $9,898,000 remained outstanding at September 30, 2016, net of unamortized debt issuance costs of $102,000. The Credit Suisse Term Loan provides that the amount borrowed will bear interest at LIBOR plus 7.50% per year, will be payable quarterly and that it will mature on July 1, 2017. In addition, the Credit Suisse Term Loan is secured by a first ranking pledge over substantially all shares of RWH owned by GFN U.S., requires a certain coverage maintenance ratio in U.S. dollars based on the value of the RWH shares and, among other things, that an amount equal to six-months interest be deposited in an interest reserve account pledged to secure repayment of all amounts borrowed.

Senior Notes

We have outstanding publicly-traded senior notes (the Senior Notes) in an aggregate principal amount of $72,000,000 ($70,000,000, net of unamortized debt issuance costs of $2,000,000 at September 30, 2016). The Senior Notes were issued in minimum denominations of $25 and integral multiples of $25 in excess thereof and pursuant to the First

Supplemental Indenture (the First Supplemental Indenture) dated as of June 18, 2014 by and between us and Wells Fargo, as trustee (the Trustee). The First Supplemental Indenture supplements the Indenture entered into by and between us and the Trustee dated as of June 18, 2014 (the Base Indenture and, together with the First Supplemental Indenture, the Indenture). The Senior Notes bear interest at the rate of 8.125% per annum, mature on July 31, 2021 and are not subject to any sinking fund. Interest on the Senior Notes is payable quarterly in arrears on January 31, April 30, July 31 and October 31, commencing on July 31, 2014.

The Senior Notes rank equally in right of payment with all of our existing and future unsecured senior debt and senior in right of payment to all of its existing and future subordinated debt. The Senior Notes are effectively subordinated to any of our existing and future secured debt, to the extent of the value of the assets securing such debt. The Senior Notes are structurally subordinated to all existing and future liabilities of our subsidiaries and are not guaranteed by any of our subsidiaries.

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As of September 30, 2016, our required principal and other obligations payments for the twelve months ending September 30, 2017 and the subsequent three twelve-month periods are as follows (in thousands):

	Twelve Months Ending September 30,			
	2017	2018	2019	2020
ANZ/CBA Credit Facility	$ 80,452	$	$	$ 2,035
Wells Fargo Credit Facility	193,104			
Credit Suisse Term Loan	9,898			
Senior Notes				
Other	5,700	1,744	1,666	238
	$ 289,154	$ 1,744	$ 1,666	$ 2,273

We have commenced the process of refinancing or extending our North America Senior Credit Facility and Facility A of our Asia-Pacific Leasing Senior Credit Facility due September 2017 and July 2017, respectively. While we believe that we have strong relationships with our senior lenders and that such refinancing or extension will be consummated prior to the respective due dates, there is no assurance that such consummation will be made under comparable or favorable terms. Reference is made to Notes 5 and 12 of Notes to Condensed Consolidated Financial Statements for further discussion of our senior and other debt.

We currently do not pay a dividend on our common stock and do not intend on doing so in the foreseeable future.

Capital Deployment and Cash Management

Our business is capital intensive, and we acquire leasing assets before they generate revenues, cash flow and earnings. These leasing assets have long useful lives and require relatively minimal maintenance expenditures. Most of the capital we deploy into our leasing business historically has been used to expand our operations geographically, to increase the number of units available for lease at our branch and CSC locations and to add to the breadth of our product mix. Our operations have generally generated annual cash flow which would include, even in profitable periods, the deferral of income taxes caused by accelerated depreciation that is used for tax accounting.

As we discussed above, our principal source of capital for operations consists of funds available from the senior secured credit facilities at our operating units. We also finance a smaller portion of capital requirements through finance leases and lease-purchase contracts. We intend to continue utilizing our operating cash flow and net borrowing capacity primarily to expanding our container sale inventory and lease fleet through both capital expenditures and accretive acquisitions; as well as paying dividends on the Series C Preferred Stock and 8.00% Series B Cumulative Preferred Stock (Series B Preferred Stock), if and when declared by our Board of Directors. While we own a majority interest of Royal Wolf and its results and accounts are included in our consolidated financial statements, access to its operating cash flows, cash on hand and other financial assets and the borrowing capacity under its senior credit facility are limited to us in North America contractually by its senior lenders and, to a certain extent, as a result of Royal Wolf being a public reporting entity on the Australian Stock Exchange.

Reference is made to Note 12 of Notes to Condensed Consolidated Financial Statements for a discussion of recent developments.

Supplemental information pertaining to our consolidated sources and uses of cash is presented in the table below (in thousands):

	Quarter Ended September 30,	
	2015	**2016**
Net cash provided by (used in) operating activities	$ 14,102	$ (358)
Net cash used in investing activities	$ (9,311)	$ (9,545)
Net cash provided by financing activities	$ 1,317	$ 10,220

Cash Flow for FY 2017 Compared to FY 2016

Operating activities. Our operations used cash of $0.4 million during FY 2017 versus providing cash of $14.1 million during FY 2016, a decrease of $14.5 million. While the net loss of 0.7 million in FY 2017 was not significantly different from the $0.5 million in FY 2016, our management of operating assets and liabilities in FY 2017, when compared to FY 2016, reduced operating cash flows by $15.7 million. The primary reason for this was the timing on the satisfaction of trade payables, accrued liabilities and unearned revenues during FY 2017 that, when compared to FY 2016, reduced operating cash flows by $18.6 million between the periods. In FY 2017 these operating liabilities

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reduced cash flow by $3.3 million, whereas in FY 2016 they increased cash flow by $15.3 million. Historically, we have experienced significant variations in operating assets and liabilities between periods when conducting our business in due course. For the quarters ended September 30, 2014, 2013 and 2012, trade payables, accrued liabilities and unearned revenues enhanced (decreased) operating cash flows by $(1.8 million), $16.2 million and $(6.4 million), respectively. Non-cash adjustments relating to depreciation, amortization (including amortization of deferred financing costs) and accretion of interest of $10.1 million in FY 2017 and $9.8 million in FY 2016 increased operating cash flows between the periods by $0.3 million. However, operating cash flows were reduced between the periods by $0.7 million from non-cash adjustments for deferred income taxes. In FY 2017 and FY 2016, deferred income taxes reduced operating cash flows by $1.8 million and $1.1 million, respectively. In FY 2017, operating cash flows were increased by a loss of $0.5 million on the sales of lease fleet, whereas in FY 2016 it was reduced by a gain of $2.1 million. Additionally, operating cash flows were reduced by non-cash share-based compensation of $0.4 million in FY 2017 and enhanced by $0.6 million in FY 2016. Typically, share-based compensation is an add-back to operating cash flows, but in FY 2017 a benefit of $0.7 million was recorded at Royal Wolf, primarily for the reversal of expenses recognized for unvested performance grants to key employees under its Long Term Incentive Plan (see Note 8 of Notes to Condensed Consolidated Financial Statements).

Investing Activities. Net cash used in investing activities was $9.5 million during FY 2017, as compared to $9.3 million used during FY 2016, a slight increase of $0.2 million. Purchases of property, plant and equipment (or rolling stock) were $0.8 million in FY 2017 and $1.1 million in FY 2016, a decrease of $0.3 million. In both periods, proceeds from sales of property, plant and equipment were not significant. Net capital expenditures of lease fleet (purchases, net of proceeds from sales of lease fleet) were $6.7 million in FY 2017 as compared to $7.6 million in FY 2016, a decrease of $0.9 million. In FY 2017, net capital expenditures of lease fleet were approximately $4.4 million in North America, as compared to $5.9 million in FY 2016, a decrease of $1.5 million, and net capital expenditures of lease fleet in the Pan Pacific totaled $2.3 million in FY 2017, versus $1.7 million in FY 2016, an increase of $0.6 million. The amount of cash that we use during any period in investing activities is almost entirely within management s discretion and we have no significant long-term contracts or other arrangements pursuant to which we may be required to purchase at a certain price or a minimum amount of goods or services. In FY 2017, we made two business acquisitions in North America for cash of $2.1 million; as compared to one business acquisition in North America during FY 2016 for cash totaling $0.7 million (see Note 4 of Notes to Condensed Consolidated Financial Statements).

Financing Activities. Net cash used in financing activities was $10.2 million during FY 2017, as compared to net cash provided of $1.3 million during FY 2016, a decrease of $8.9 million. In FY 2017 and FY 2016, cash provided from financing activities included net borrowings of $11.1 million and $2.5 million, respectively, on existing credit facilities to primarily fund our investment in the container lease fleet and business acquisitions and, in FY 2017, for the management of operating assets and liabilities. Cash was also used during both periods to pay dividends on primarily our Series C Preferred Stock of $0.9 million and, in FY 2016, $0.2 million was used to make a distribution to the noncontrolling interest of Southern Frac.

Asset Management

Receivables and inventories were $40.5 million and $38.9 million at September 30, 2016 and $38.1 million and $34.6 million at June 30, 2016, respectively. At September 30, 2016, days sales outstanding (DSO) in trade receivables were 39 days and 54 days in the Asia-Pacific area and in our North American leasing operations, as compared to 36 days and 49 days at June 30, 2016, respectively. The higher DSO in our North American leasing operations was primarily due to the longer payment lag by our oil and gas customers. Effective asset management is always a significant focus as we strive to apply appropriate credit and collection controls and maintain proper inventory levels to enhance cash flow and profitability.

The net book value of our total lease fleet was $424.2 million at September 30, 2016, as compared to $419.3 million at June 30, 2016. At September 30, 2016, we had 79,651 units (22,122 units in retail operations in Australia, 9,476 units in national account group operations in Australia, 9,888 units in New Zealand, which are considered retail; and 38,165 units in North America) in our lease fleet, as compared to 78,605 units (22,194 units in retail operations in Australia, 9,688 units in national account group operations in Australia, 9,745 units in New Zealand, which are considered retail; and 36,978 units in North America) at June 30, 2016. At those dates, 59,809 units (18,086 units in retail operations in Australia, 5,935 units in national account group operations in Australia, 8,639 units in New Zealand, which are considered retail; and 27,149 units in North America); and 57,265 units (17,829 units in retail operations in Australia, 5,816 units in national account group operations in Australia, 8,218 units in New Zealand, which are considered retail; and 25,402 units in North America) were on lease, respectively.

In the Asia-Pacific area, the lease fleet was comprised of 34,787 storage and freight containers and 6,699 portable building containers at September 30, 2016; and 35,060 storage and freight containers and 6,567 portable building containers at June 30, 2016. At those dates, units on lease were comprised of 27,711 storage and freight containers and 4,949 portable building containers; and 27,259 storage and freight containers and 4,604 portable building containers, respectively.

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In North America, the lease fleet was comprised of 25,080 storage containers**,** 3,304 office containers (GLOs), 4,056 portable liquid storage tank containers, 4,578 mobile offices and 1,147 modular units at September 30, 2016; and 24,084 storage containers**,** 3,106 office containers (GLOs), 4,056 portable liquid storage tank containers, 4,590 mobile offices and 1,142 modular units at June 30, 2016. At those dates, units on lease were comprised of 18,304 storage containers, 2,676 office containers, 1,667 portable liquid storage tank containers, 3,562 mobile offices and 940 modular units; 17,081 storage containers, 2,394 office containers, 1,501 portable liquid storage tank containers, 3,518 mobile offices and 908 modular units, respectively.

Contractual Obligations and Commitments

Our material contractual obligations and commitments consist of outstanding borrowings under our credit facilities discussed above and operating leases for facilities and office equipment. We believe that our contractual obligations have not changed significantly from those included in our Annual Report.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Seasonality

Although demand from certain customer segments can be seasonal, our operations as a whole are not seasonal to any significant extent. We experience a reduction in sales volumes at Royal Wolf during Australia s summer holiday break from mid-December to the end of January, followed by February being a short working day month. However, this reduction in sales typically is counterbalanced by the increased lease revenues derived from the removals or moving and storage industry, which experiences its seasonal peak of personnel relocations during this same summer holiday break. Demand from some of Pac-Van s customers can be seasonal, such as in the construction industry, which tends to increase leasing activity in the first and fourth quarters; while customers in the retail industry tend to lease more units in the second quarter. Our business at Lone Star and Southern Frac, which is significantly derived from the oil and gas industry, may decline in our second quarter months of November and December and our third quarter months of January and February. These months may have lower activity in parts of the country where inclement weather may delay, or suspend, customer projects. The impact of these delays may be to decrease the number of frac tank containers on lease until companies are able to resume their projects when weather improves.

Environmental and Safety

Our operations, and the operations of many of our customers, are subject to numerous federal and local laws and regulations governing environmental protection and transportation. These laws regulate such issues as wastewater, storm water and the management, storage and disposal of, or exposure to, hazardous substances. We are not aware of any pending environmental compliance or remediation matters that are reasonably likely to have a material adverse effect on our business, financial position or results of operations. However, the failure by us to comply with applicable environmental and other requirements could result in fines, penalties, enforcement actions, third party claims, remediation actions, and could negatively impact our reputation with customers. We have a company-wide focus on safety and have implemented a number of measures to promote workplace safety.

Impact of Inflation

We believe that inflation has not had a material effect on our business. However, during periods of rising prices and, in particular when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our operating costs and may not be able to pass price increases through to our customers in a timely manner, which could harm our future results of operations.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we re-evaluate all of our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form

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the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions as additional information becomes available in future periods.

A comprehensive discussion of our critical and significant accounting policies and management estimates are included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 2 of Notes to Consolidated Financial Statements in our Annual Report. Reference is also made to Note 2 of Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q for a further discussion of our significant accounting policies. We believe there have been no significant changes in our critical accounting policies, estimates and judgments during FY 2017.

Impact of Recently Issued Accounting Pronouncements

Reference is made to Note 2 of Notes to Condensed Consolidated Financial Statements for a discussion of recently issued accounting pronouncements that could potentially impact us.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges and other market-driven rates or prices. Exposure to interest rates and currency risks arises in the normal course of our business and we may use derivative financial instruments to hedge exposure to fluctuations in foreign exchange rates and interest rates. We believe we have no material market risks to our operations, financial position or liquidity as a result of derivative activities, including forward-exchange contracts.

Reference is made to Notes 5 and 6 of Notes to Condensed Consolidated Financial Statements for a discussion of our senior and other debt and financial instruments.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of disclosure controls and procedures in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating our disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and that our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

In evaluating our forward-looking statements, readers should specifically consider risk factors that may cause actual results to vary from those contained in the forward-looking statements. Risk factors associated with our business are included, but not limited to, our Annual Report on Form 10-K for the year ended June 30, 2016, as filed with the SEC on September 9, 2016 (Annual Report) and other subsequent filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index attached.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2016

GENERAL FINANCE CORPORATION

By: /s/ Ronald F. Valenta
Ronald F. Valenta
Chief Executive Officer

By: /s/ Charles E. Barrantes
Charles E. Barrantes
Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350
101	The following materials from the Registrant s Quarterly report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income/Loss, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements.